Coats plc
Annual Report 2006

COATS

Global leader in thread

Contents

Financial summary

	2006 $m	2005 Restated* $m
Revenue	**1,615.1**	1,636.7
Operating profit before exceptional items	**122.4**	126.5
Operating profit	**79.9**	99.8
Profit before taxation and exceptional items	**99.6**	98.9*
Profit before taxation	**38.5**	67.5*
Net profit before exceptional items attributable to equity shareholders	**68.9**	62.4*
Net profit attributable to equity shareholders	**11.3**	41.6*
Net debt	**345.7**	363.3

*Restated, see note 2(r).

Results

Coats overall performance in 2006 was similar to 2005, however at divisional level a major improvement in industrial thread was offset by weakness in the US handknittings market.

Pre-exceptional operating profit (before reorganisation, impairment and other exceptional items) was $122.4 million compared to $126.5 million in 2005. This reflects a 2% improvement in second half profits compared to previous year after an 8% decline in the first half. Lower sales of fancy yarn in North America continued to be a major factor affecting crafts profitability but in the second half this was exacerbated by generally weak demand for crafts in Europe. In contrast, industrial sales and profit margins continued the improvement seen in the first half.

In addition to the impact of lower sales, crafts profits were impacted by inventory write-downs and other one-off charges. The year-on-year decline was magnified by the build up of North American retailers' handknittings stocks which had benefited 2005 but which was reversed in 2006. On a more positive note, the industrial business – which makes up 64% of Coats' sales and where the majority of recent investment and reorganisation has been directed – made substantial progress as a result of productivity gains in Western markets and sales growth in Asia.

The individual results for crafts and industrial over the last three years provide an additional perspective on the current year's performance:

	2006	2005	2004
External sales $m			
Crafts	585.0	640.5	590.5
Industrial thread & zips	1,030.1	996.2	987.7
Total	**1,615.1**	**1,636.7**	**1,578.2**
Like-for-like sales growth			
Crafts	-12%	+3%	+8%
Industrial thread & zips	+2%	-1%	–
Total	**-3%**	**+1%**	**+3%**
Pre-exceptional operating profit $m			
Crafts	18.8	58.0	41.2
Industrial thread & zips	103.6	68.5	49.3
Total	**122.4**	**126.5**	**90.5**
Pre-exceptional operating margin			
Crafts	3%	9%	7%
Industrial thread & zips	10%	7%	5%
Total	**8%**	**8%**	**6%**

Net earnings attributable to equity shareholders fell by $30.3 million to $11.3 million due to a $42.5 million negative swing on foreign exchange gains/losses, which was only partially offset by lower reorganisation costs ($51.6 million compared to $62.4 million) and higher profits on property disposals ($21.3 million compared to $17.2 million).

EBITDA (defined as pre-exceptional operating profit before depreciation and amortisation) of $185.4 million was 2% ahead of the previous year's total of $182.5 million. Net operating cash flow before reorganisation costs remained strong at $172.3 million compared to $231.2 million in 2005, which included an exceptional reduction in net working capital of $55.4 million. Although the year-end working capital position was slightly above the previous year, underlying management of working capital continued to improve with the average working capital/sales ratio falling to 22% from 24% in 2005.

Spending on reorganisation and capital projects remained high at $132.8 million (2005 – $135.6 million), but including the realisation of $60.2 million from the sale of surplus property (2005 – $56.6 million) this was comfortably covered by internally generated cash flow. Net debt fell by $17.6 million to $345.7 million.

Investment, reorganisation and disposals

Investment in new plant and systems amounted to $78.3 million (2005 – $81.3 million). The bulk of investment was directed towards upgrading existing operations with the balance consisting of additional capacity to meet growth in Asia. Total spending in Asia accounted for approximately half of the total.

In cash terms, reorganisation spend of $54.5 million was level with 2005 but this partly reflected the cash outflows on projects for which provisions were already established and the P&L charge of $51.6 million was significantly lower than the previous year's total of $62.4 million. Approximately 70% of the charge in 2006 was directed towards site closures and overhead reduction in Europe. Total numbers employed in the Group fell by 4% to 23,781 at the end of the year and over 80% of employees are now located in low cost markets. As in previous years, reorganisation cash outflows were covered by proceeds from the sale of properties, which in most cases had become surplus as a result of the Group's reorganisation program.

Spending on acquisition of businesses and minority shareholdings in existing subsidiaries, net of disposals, amounted to $7.5 million (2005 – net inflow of $5.4 million). The net total covers several relatively small transactions, the most significant of which was the acquisition of HP, a crafts wholesaler in Denmark with annual sales of approximately $12 million. Once fully integrated, HP will complement last year's acquisition of Almedahls and strengthen Coats' position as the leading crafts business in Scandinavia.

Prospects

The consistent progress achieved by the industrial business over the last three years is encouraging and further improvement is planned – both from cost reductions in Western markets as the benefits from recent investment and reorganisation are fully delivered, and also from sales growth in Asia. Global demand – which is mainly dependent on consumer purchases of clothing and footwear – is expected to remain reasonably firm but certain regions, notably Europe and South America, will continue to be impacted by growth in imports from Asia. Trading conditions in all regions remain highly competitive.

The outlook for handknittings – which accounts for just under 40% of Coats crafts sales of $585.0 million – is mixed. Although underlying consumer demand for classic and basic yarns remained relatively stable during 2006, the decline in fancy yarns impacted retailer confidence in the whole handknittings category and there has to be some uncertainty over the level of 2007 sales. In any event there should be some recovery in profitability due to the reduction of mark-downs and other one-off charges which affected 2006.

In other crafts categories, demand has also been weaker but opportunities to take full advantage of Coats' overall market leadership position are being pursued. New ranges of consumer sewings, crochet and embroidery are being developed which will form the basis of a harmonised global offer in contrast to the largely country-specific ranges which currently make up the majority of sales. Not only should this result in more efficient supply chains, but the more focused offer will enable greater levels of marketing support to be concentrated on growing market share. However, the benefits of these projects are unlikely to come through until 2008/9.

The Group's program of relocating and upgrading industrial thread capacity has been successful and has made a substantial contribution to the improvement in industrial profitability. Given the nature of the industry, it is likely that there will continue to be an ongoing need to close or downsize plants in certain countries while expanding in others but reorganisation costs in 2007 and beyond are expected to be lower than the average of the last three years. Going forward, a greater proportion of reorganisation projects will be related to reduction of selling and administration overheads as well as reorganisation within the crafts business. At the same time, after the catch-up investment of the last three years, it is anticipated that net capital expenditure will tend to move closer towards the level of depreciation.

There have been no significant developments in the European Commission investigation since the half year. During 2007, the outcome of the Commission's investigation into European fasteners – the last outstanding part of the general investigation into thread and haberdashery markets which began in 2001 – should be announced. In addition, the Court of First Instance is expected to rule on Coats' appeal against the fine levied in 2004 in respect of needles. As stated in previous reports, it is believed that any anticipated eventual payment of fines is adequately covered by existing provisions.

Overall, the Board remains confident of the potential for improvement in Coats' results as the heavy restructuring program of the last three years continues to deliver benefits. The industrial business should continue to gain from its strong position in the high growth markets of Asia. In addition, its profitability in Europe and North America will be less constrained by excess capacity and uneconomic units although competitive pressures remain high, particularly in zips. The crafts business should be able to improve profitability in the medium term, although the extent of recovery in the short term will depend on the level of handknittings demand as well as the speed at which the new ranges in other crafts categories can be rolled out.

Finally, in terms of net earnings, the reduced level of reorganisation cost should begin to allow the improvements in operating profit achieved over the last three years to flow through to the bottom line.

Gary Weiss
Chairman
23 April 2007

Sales by region

	2005 $m	Exchange retranslation* $m	Acquisitions/ disposals $m	2005 like-for-like $m	2006 reported $m	Like-for-like increase/ (decrease) %
External sales						
Asia and Rest of world	463.9	(3.4)	–	460.5	516.7	+12%
Europe	545.4	8.4	11.5	565.3	525.3	-7%
North America	431.3	1.5	–	432.8	363.5	-16%
South America	196.1	15.1	–	211.2	209.6	-1%
Total	**1,636.7**	**21.6**	**11.5**	**1,669.8**	**1,615.1**	**-3%**

*Impact of restating 2005 figures at 2006 exchange rates.

Asia and Rest of world

Sales +12%

Coats' operations in Asia are mainly focused on industrial thread with sales and profits growing strongly throughout the region, reflecting the benefit of relationships with global retailers and brand owners as well as the continued growth in apparel exports. In addition to the impact from higher sales volumes, margins benefited from the ramping up of production at the new plants in China.

Europe

Sales -7%

Sales of industrial thread and zips in total continued to suffer from net customer migration, although there were individual growth markets within Eastern Europe. Fashion trends also had a negative impact on zip sales compared to the previous year. Industrial sales in total fell by 8% on a like-for-like basis, but despite this the business moved into profit as a result of reorganisation benefits although margins remained well below Group targets.

Crafts sales, which make up approximately half of the total sales in the region, fell by 6% once the benefit from exchange rates and acquisitions is excluded. Handknitting sales weakened in the second half after a relatively good first half, while other categories were weaker throughout the year. Along with the reduction in sales, transitional costs due to the move to a new supply chain had a significant impact on operating profit which for the region as a whole offset the gains made by the industrial business.

North America

Sales -16%

Industrial sales fell by 3%, reflecting a relatively strong performance in a region which is still experiencing net customer migration. More importantly, after several years of losses the business moved into profit as benefits from earlier reorganisation and investment finally came through. However margins remained well below Group targets.

Crafts sales, as in Europe, account for approximately half of the regional total but handknittings have a greater weight in the product mix. Mainly as a result of the weakness in the fancy yarns segment, full year North American crafts sales fell by 26%. Although second half crafts sales were not as weak as the first half (which fell by 35%), inventory write-downs and other one-off charges led to a substantial reduction in regional profits.

South America

Sales -1%

Industrial sales continued to be under pressure from the strengthening of local currencies against the US dollar and consequent increase in import penetration. However margins were protected by improvements in productivity.

The crafts business in South America represents approximately 40% of total sales in the region. In contrast to Europe and North America, crafts sales and profits for the full year increased slightly but demand trends in the second half were noticeably weaker than in the first half.

Overall, regional profit was slightly up on essentially flat sales.

Investment income and finance costs

Finance costs, before exceptional items and net of investment income, were $24.9 million compared to $29.2 million in the previous year. Net interest payable, before exceptional items and after including $2.7 million of interest receivable shown in investment income, was $37.0 million, in line with the previous year, whilst the credit from the net return on pension scheme assets and liabilities increased by $7.4 million to $15.7 million.

Exceptional finance costs increased by $13.9 million to $18.6 million. The 2006 charges consists of the notional interest charge on the parent company loan as explained in note 23. The increased charge compared to 2005 is largely due to the absence of exceptional exchange gains of $11.8 million which reduced the net charge in 2005. The Group's borrowings are now largely denominated in US dollars, with remaining local currency debt in general covered by assets in the same currency.

Tax

The tax charge of $26.3 million (2005 – $39.5 million) represents a rate of 68% (2005 – 59%) on pre-tax profit of $38.5 million (2005 – $67.5 million). On a pre-exceptional basis, the tax rate is 29% for 2006 compared to 47% in the previous year, which was distorted by prior year items.

Pension and other post-employment benefits

The Group operates a defined benefit plan in the UK and there is a similar arrangement in the USA. The UK scheme shows a recoverable surplus of $22.9 million (2005 – $27.2 million) and the USA scheme shows a recoverable surplus of $36.9 million (2005 – $28.9 million). The UK and USA surpluses are included in non-current assets. During the year the UK scheme's triennial valuation was completed and as a consequence an employer contribution holiday continues to be taken.

There are various pension and leaving indemnity arrangements (primarily in Europe) where the Group operates. The vast majority of these schemes, in line with local market practice, are not "funded" but are fully provided in the Group accounts and are predominantly included in current and non-current liabilities.

Balance sheet

As set out in more detail in note 2(n) of the financial statements, the accounting treatment of the amounts owed to the parent company which are subordinated, convertible and non interest bearing has been reviewed. The accounting treatment has been amended to recognise the liability component at fair value on inception and to recognise an equity component, being the value of the conversion option. The impact of this amendment is to increase net assets at 31 December 2005 by $126.1 million, to $270.0 million and to increase finance costs in the year ended 31 December 2005 by $16.5 million, reflecting a notional interest charge on the loan.

Restated equity shareholders' funds increased from $243.3 million in 2005 to $261.3 million, reflecting the $11.3 million net attributable profit plus net gains of $6.7 million taken directly to reserves. Minority interests fell by $7.2 million to $19.5 million largely as a result of acquisition. Net debt reduced by $17.6 million from $363.3 million to $345.7 million.

Executive Director

Michael Smithyman (Aged 61) Group Chief Executive. Joined the Group in October 2003. He previously held the position of Chief Executive Officer of WACO International and prior to that MD of BTR Dunlop (South Africa).

Non Executive Directors

Gary Weiss (Aged 53) Appointed a Director in February 2003 and Chairman in 2004 he has considerable experience in the international business scene. He is an executive director of Guinness Peat Group plc and a director of various public companies including Capral Aluminium Ltd, Premier Investments Ltd, Tower Australia Group Ltd and Westfield Group. He is Chairman of the Remuneration Committee and a member of the Audit Committee.

Anthony Gibbs (Aged 59) Appointed a Director in 2004, he has been involved with public company boards for many years. His experience includes mergers, acquisitions and divestments. He is chairman of Tower Ltd, Turners & Growers Ltd and Staveley Inc., and an executive director of Guinness Peat Group plc. He is a member of the Remuneration Committee.

Blake Nixon (Aged 46) Appointed a Director in 2003, he has wide corporate experience in both the UK and Australia. He is executive director of Guinness Peat Group plc, and his other directorships include Staveley Inc. He is Chairman of the Audit Committee and a member of the Remuneration Committee.

Rex Wood-Ward (Aged 58) Appointed a Director in 2003, with over 30 years international experience in general management, mergers and acquisitions and corporate strategy, Rex has been a director of several public companies on three continents. He is currently Chairman of Westcity plc. He is a member of the Audit Committee and the Remuneration Committee.

Company Secretary: Roger Bevan
Auditors: Deloitte & Touche LLP

Directors' report

The Directors present their report and the financial statements for the year ended 31 December 2006.

Principal activities The principal activities of the Group during the year were the manufacture, processing and distribution of sewing thread for industrial and domestic use.

The subsidiaries and joint ventures principally affecting the profits or net assets of the Group in the year are listed in note K to the Company's accounts.

Business review A review of the business during the year and of prospective future developments is contained within the Chairman's statement and the Operating review on pages 2 to 6.

Results and dividends The results of the Group for the year are set out in the consolidated income statement on page 12.

The Directors do not recommend the payment of a dividend (2005 – nil).

Directors Gary Weiss, Mike Smithyman, Tony Gibbs, Blake Nixon and Rex Wood-Ward all served as Directors throughout the year.

Directors' interests Mike Smithyman has an interest in 30 (2005 – 30) 'B' Growth Shares of the Company and had an interest in nil (2005 – 180,000) in the Ordinary shares of the Company's ultimate parent, Guinness Peat Group plc at the year end. Mike Smithyman also held options over 200,000 Ordinary shares of Guinness Peat Group plc at the year end which were granted to him during the year and can be exercised between 2009 and 2016 at an exercise price of 85p per share. The interests of Gary Weiss, Tony Gibbs and Blake Nixon in the shares of the ultimate parent company, Guinness Peat Group plc, and its subsidiaries, are declared in the statutory accounts of that company. Rex Wood-Ward had no interest in the shares of the Company, Guinness Peat Group plc or any of its subsidiaries at any time during this or the prior year.

Employment practices The Group is committed to ensuring that employment practices and policies continue to match best practice in every market where we operate. Effective employee communications play a key role in ensuring that changes within the Group are understood and wherever possible anticipated. The annual gathering of Coats Business Leaders was held to this effect in May 2006.

The Group remains committed to meaningful employee consultation. The European Works Council Select Committee met regularly during the year and was consulted in relation to key projects affecting employment in more than one European country.

The Group continuously develops its employment practices and policies and uses the best practice that exists in its units to the benefit of its wider operations.

Ethical employment Coats operates worldwide in full recognition of the ILO Conventions, the UN Declaration of Human Rights and Convention on Rights of the Child and the OECD Guidelines for Multinational Enterprises. Coats Worldwide Employment Standards Statement contains the ethical principles which are observed across its global operations. The statement refers to employee rights to a safe and healthy work environment, the right to collective representation and the Group's commitment to ensuring that no persons below the legal age of employment are employed.

It is the Group's policy to offer equal opportunities to disabled persons applying for vacancies and provide them with the same opportunities for employment, training, career development and promotion as are available to all employees, within the limitation of their aptitude and abilities. Employment within the Group is offered on the basis of the person's ability to work and not on the basis of their race, individual characteristics, creed or political opinion. The Group seeks to ensure that its suppliers also act in full conformity with this policy.

Health and safety The Group is committed to effective Health and Safety risk management. Line management across Coats businesses is fully accountable for the consistent implementation of Coats Health & Safety standards and policies.

Coats uses the USA OHSA reporting rate globally, which produces an index of all reportable Health and safety incidents against the total hours worked by units. The Coats global reportable rate for 2006 was 1.7 compared to 2.2 in 2005 and compared to the OSHA rate for the whole textile industry in the USA for 2005 (latest figures available) of 4.4.

Environmental management During 2006 the emphasis for Coats' environmental management programme has been, as in previous years, the prevention of environmental incidents in our operating plants and extending and policing compliance with our Restricted Substances List.

We had one minor reportable environmental incident in 2006, compared to 4 in 2005. We have extended our Restricted Substances List further which is, we believe, the most comprehensive in the textile industry. We aim to eliminate or severely restrict over 200 individual chemicals or groups of chemicals and 140 dyes from our manufacturing processes. We monitor this mainly via our chemical and dyestuff suppliers, and, where necessary, we do independent tests to confirm compliance.

We expect all our plants to have environmental management systems that would be consistent with ISO14000.

During 2007 we will continue to pursue the above goals and, in addition, will be looking at emerging technology for recycling of or use of recycled material in our principal raw materials.

Research and development Once again the main focus of our Research and Development activity for the year has been on Colour Management Systems where Coats' proprietary technology is industry leading and delivers significant benefit to the business. In addition we have devoted significant resources to the development of new coating technologies.

Supplier credit and payment policy It is the Group's policy that its subsidiaries follow the guidance issued by the CBI regarding Better Payment Practice. A copy of the guidance may be obtained from the CBI. In particular, for all trade creditors it is the Group's policy to:

– agree the terms of payment at the start of business with a supplier;
– ensure suppliers are aware of the terms of payment; and
– pay in accordance with its contractual and other legal obligations.

Trade creditors of the Group at 31 December 2006 were equivalent to 67 (2005 – 74) days' purchases, based on the average daily amount invoiced by suppliers during the year.

Financial risk management Details of the financial risk management objectives and policies of the Group, and the exposure of the Group to credit risk, foreign currency and interest rate risk, are set out in notes 17 and 21 to the financial statements.

UK Pension fund The Coats Pension Plan is a contributory scheme open to UK employees of the Group and provides benefits additional to those from the State Basic Pension Scheme, whilst enabling members to be contracted out of the State Earnings Related Pension Scheme. In addition to the normal retirement pension there are generous benefits payable if members die in service or retire early because of ill health. Members may also receive an early retirement pension on favourable terms from age 50 onwards.

Insurance for officers of the Group The Group maintains insurance for officers of the Company and its subsidiaries indemnifying them against certain liabilities incurred by them while acting as officers of the Company and its subsidiaries.

Charitable donations Payments of $32,000 (2005 – $21,000) were made to charities during the year to UK and Overseas recipients.

Auditors Each of the persons who is a Director at the date of approval of this annual report confirms that:

– so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
– the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 234ZA of the Companies Act 1985.

A resolution to re-appoint Deloitte & Touche LLP as the Group's Auditors and to authorise the Directors to fix their remuneration will be proposed at the Annual General Meeting.

Statement of Directors' responsibilities The Directors are responsible for preparing the Annual Report and the financial statements in accordance with the Companies Act 1985 and Article 4 of the International Accounting Standards (IAS) Regulation. As the Company is a wholly owned subsidiary of Guinness Peat Group plc, which prepares consolidated financial statements under International Financial Reporting Standards (IFRS), there is no requirement under Company law for the Company to prepare consolidated financial statements. However, the Directors have elected to prepare consolidated financial statements, and these have been prepared under IFRS to provide consistency with Guinness Peat Group plc. The Directors have elected to prepare financial statements for the Company in accordance with UK GAAP.

IAS 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the IAS Board's "Framework for the Preparation and Presentation of Financial Statements". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS.

The Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' report and Operating review which comply with the requirements of the Companies Act 1985.

The Directors are responsible for the maintenance and integrity of the Company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By Order of the Board
Roger Bevan
Company Secretary
23 April 2007

Independent auditors' report to the members of Coats plc

We have audited the Group financial statements of Coats plc for the year ended 31 December 2006 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of recognised income and expense and the related notes 1 to 35. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Parent Company financial statements of Coats plc for the year ended 31 December 2006.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the Group financial statements.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Director's remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

Opinion

In our opinion:

– the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 December 2006 and of its profit for the year then ended;
– the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
– the information given in the Directors' Report is consistent with the Group financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
23 April 2007

Consolidated income statement

For the year ended 31 December 2006	Notes	2006 Before exceptional items $m	2006 Exceptional items (see note 5) $m	2006 Total $m	2005 Restated* Before exceptional items $m	2005 Restated* Exceptional items (see note 5) $m	2005 Restated* Total $m
Continuing operations							
Revenue	4	**1,615.1**	**–**	**1,615.1**	1,636.7	–	1,636.7
Cost of sales		**(1,021.0)**	**(63.8)**	**(1,084.8)**	(1,040.1)	(43.9)	(1,084.0)
Gross profit		**594.1**	**(63.8)**	**530.3**	596.6	(43.9)	552.7
Distribution costs		**(299.9)**	**–**	**(299.9)**	(306.2)	–	(306.2)
Administrative expenses		**(176.4)**	**–**	**(176.4)**	(165.6)	–	(165.6)
Other operating income	4	**4.6**	**21.3**	**25.9**	1.7	17.2	18.9
Operating profit	5&6	**122.4**	**(42.5)**	**79.9**	126.5	(26.7)	99.8
Share of profits of joint ventures		**2.1**	**–**	**2.1**	1.6	–	1.6
Investment income	8	**4.4**	**–**	**4.4**	7.0	–	7.0
Finance costs	9	**(29.3)**	**(18.6)**	**(47.9)**	(36.2)	(4.7)	(40.9)*
Profit before taxation		**99.6**	**(61.1)**	**38.5**	98.9	(31.4)	67.5
Taxation	10	**(28.7)**	**2.4**	**(26.3)**	(46.6)	7.1	(39.5)
Profit from continuing operations		**70.9**	**(58.7)**	**12.2**	52.3	(24.3)	28.0
Discontinued operations							
Profit from discontinued operations	11	**3.2**	**–**	**3.2**	15.0	–	15.0
Profit for the year		**74.1**	**(58.7)**	**15.4**	67.3	(24.3)	43.0
Attributable to:							
EQUITY SHAREHOLDERS OF THE COMPANY	28	**68.9**	**(57.6)**	**11.3**	62.4	(20.8)	41.6
Minority interests		**5.2**	**(1.1)**	**4.1**	4.9	(3.5)	1.4
		74.1	**(58.7)**	**15.4**	67.3	(24.3)	43.0

*Restated, see note 2(r).

At 31 December 2006	Notes	2006 $m	2005 Restated* $m
Non-current assets			
Intangible assets	12	**260.9**	257.5
Property, plant and equipment	13	**510.8**	482.5
Investments in joint ventures and associates	15	**16.2**	16.4
Available-for-sale investments	18	**4.9**	3.5
Deferred tax assets	24	**9.5**	4.6
Pension surpluses	33	**61.3**	57.5
Trade and other receivables	17	**27.6**	23.4
		891.2	845.4
Current assets			
Inventories	16	**307.6**	286.9
Trade and other receivables	17	**308.5**	302.7
Available-for-sale investments	18	**0.2**	8.8
Cash and cash equivalents	30	**76.4**	77.8
		692.7	676.2
Non-current assets classified as held for sale	11	**4.8**	30.2
Total assets		**1,588.7**	1,551.8
Current liabilities			
Trade and other payables	19	**(328.3)**	(313.5)
Current income tax liabilities		**(10.6)**	(4.5)
Bank overdrafts and other borrowings	20	**(127.9)**	(122.0)
Provisions	22	**(167.1)**	(150.0)
		(633.9)	(590.0)
Net current assets		**58.8**	86.2
Non-current liabilities			
Amounts owed to parent undertaking (subordinated and convertible)	23	**(173.2)**	(154.6)*
Trade and other payables	19	**(25.9)**	(28.0)
Deferred tax liabilities	24	**(10.7)**	(12.1)
Borrowings	20	**(294.2)**	(319.1)
Retirement benefit obligations:			
Funded schemes	33	**(1.0)**	(2.1)
Unfunded schemes	33	**(112.4)**	(113.3)
Provisions	22	**(56.6)**	(62.6)
		(674.0)	(691.8)
Total liabilities		**(1,307.9)**	(1,281.8)
Net assets		**280.8**	270.0
Equity			
Share capital	25	**137.9**	137.9
Equity reserve	26	**154.0**	154.0*
Hedging and translation reserves	27	**15.0**	(1.3)*
Retained loss	28	**(45.6)**	(47.3)*
EQUITY SHAREHOLDERS' FUNDS	29	**261.3**	243.3
Minority interests	29	**19.5**	26.7
Total equity	29	**280.8**	270.0

*Restated, see note 2(r).

The financial statements were approved by the Board of Directors and authorised for issue on 23 April 2007.

They were signed on its behalf by:
Blake Nixon, Director
23 April 2007

Consolidated cash flow statement

For the year ended 31 December 2006	Notes	2006 $m	2005 $m
Cash inflow/(outflow) from operating activities			
Net cash inflow generated by operations	30	**117.8**	176.9
Interest paid		**(37.0)**	(36.7)
Taxation paid		**(35.8)**	(39.8)
Net cash generated from operating activities		**45.0**	100.4
Cash inflow/(outflow) from investing activities			
Dividends received from associates and joint ventures		**2.3**	2.8
Acquisition of property, plant and equipment and intangible assets		**(78.3)**	(81.3)
Disposal of property, plant and equipment and intangible assets		**60.2**	56.6
Acquisition of financial investments		**(0.9)**	(9.3)
Disposal of financial investments		**8.6**	2.4
Acquisition of subsidiaries	30	**(10.7)**	(7.6)
Disposal of subsidiaries	30	**3.2**	13.0
Net cash absorbed in investing activities		**(15.6)**	(23.4)
Cash outflow from financing activities			
Dividends paid to minority interests		**(4.4)**	(7.1)
Decrease in debt and lease financing		**(33.3)**	(119.2)
Net cash absorbed in financing activities		**(37.7)**	(126.3)
Net decrease in cash and cash equivalents		**(8.3)**	(49.3)
Net cash and cash equivalents at beginning of the year		**57.1**	113.5
Foreign exchange gains/(losses) on cash and cash equivalents		**1.3**	(7.1)
Net cash and cash equivalents at end of the year	30	**50.1**	57.1
Reconciliation of net cash flow to movement in net debt			
Net decrease in cash and cash equivalents		**(8.3)**	(49.3)
Cash outflow from change in debt and lease financing		**33.3**	119.2
Change in net debt resulting from cash flows		**25.0**	69.9
New finance leases		**(0.3)**	(3.6)
Transfer of preference shares from equity under IAS 32		**–**	(28.0)
Other		**(3.9)**	(3.9)
Foreign exchange (losses)/gains		**(3.2)**	6.1
Decrease in net debt		**17.6**	40.5
Net debt at start of year		**(363.3)**	(403.8)
Net debt at end of year	30	**(345.7)**	(363.3)

For the year ended 31 December 2006	Notes	2006 $m	2005 Restated* $m
Gain on cash flow hedges		**2.2**	4.6
Exchange differences on translation of foreign operations		**17.0**	(12.6)*
Actuarial (losses)/gains in respect of retirement benefit schemes	33	**(9.4)**	47.4
Tax on items taken directly to equity		**(0.6)**	0.3
Net income recognised directly in equity		**9.2**	39.7
Profit for the year		**15.4**	43.0*
Transferred to profit or loss on cash flow hedges		**(2.8)**	0.8
Other transfers to profit or loss		**–**	(2.1)
Total recognised income and expense for the year	29	**21.8**	81.4
Attributable to:			
EQUITY SHAREHOLDERS OF THE COMPANY		**18.0**	80.0
Minority interests		**3.8**	1.4
		21.8	81.4

Impact since the adoption of IAS 32 and IAS 39 as at 1 January 2005 in respect of the restatement of amounts owed to parent undertaking (subordinated and convertible) as set out in note 2(r)	**(16.5)**
Attributable to:	
EQUITY SHAREHOLDERS OF THE COMPANY	**(16.5)**
Minority interests	**–**
	(16.5)

*Restated, see note 2(r).

1 General information

Coats plc is a company incorporated in the United Kingdom under the Companies Act 1985. The address of its registered office is 1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD. The nature of the Group's operations and its principal activities are set out in the Chairman's statement and Operating review on pages 2 to 6 and the Directors' report on pages 8 to 10.

2 Principal accounting policies

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. The following are the principal policies adopted in preparing the Group financial statements.

(a) Accounting convention and format

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

– IFRS 7 Financial Instruments: Disclosures; and the Related Amendment to IAS 1 on Capital Disclosures
– IFRIC 8 Scope of IFRS 2
– IFRIC 9 Reassessment of Embedded Derivatives
– IFRIC 11 IFRS 2 – Group and Treasury Share Transactions

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for additional disclosures on capital and financial instruments when the relevant standards come into effect for periods commencing on or after 1 January 2007.

(b) Basis of consolidation

(i) Subsidiaries

The principal subsidiaries are listed in note K to the Company's accounts. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. The effective date is when control passes to or from the Group. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered in determining the existence or otherwise of control.

(ii) Associates

The Group's investment in associates is accounted for under the equity method of accounting. Associates are entities in which the Group has the ability to exert significant influence and which are neither subsidiaries nor joint ventures. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The investment in associates is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in value. The income statement reflects the share of the profit or losses after taxation of associates. If the Group's share of losses exceeds the carrying amount of an associated undertaking, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the undertaking.

Where there has been a change recognised directly in the associate's equity, the Group recognises its share of any changes and discloses this, where applicable, in the statement of recognised income and expense.

(iii) Joint ventures

Joint ventures are entities in which the Group has joint control, shared with a party outside the Group. The Group reports its interests in joint ventures using the equity method as allowed under the 'alternative accounting rules' set out in IAS 31 – Interests in Joint Ventures.

2 Principal accounting policies (continued)

(c) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 – Business Combinations are recognised at their fair value at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement.

(d) Foreign currencies

(i) Subsidiary undertakings

The balances and transactions of subsidiary undertakings are recorded in the functional currency of that subsidiary. Currencies other than the functional currency of the subsidiary are foreign currencies.

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. All currency differences are taken to the income statement with the exception of differences on receivables and payables that represent a net investment in a foreign operation, which are taken directly to equity until disposal of the net investment, at which time they are recycled through the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction.

(ii) On consolidation

Given the markets in which the Group operates and the global dimension of the business, the US dollar is the functional currency of the Group. The Group results in these financial statements are therefore prepared in US dollars, the presentation currency of the Group.

The assets and liabilities of the subsidiaries are translated into the presentation currency of the Group at the rate of exchange ruling at the balance sheet date and their income statements are translated at the average exchange rates for the year. The exchange differences arising on the retranslation are taken to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recycled through the income statement.

Goodwill and fair value adjustments arising on acquisition of a subsidiary are regarded as assets and liabilities of the subsidiary and are expressed in the functional currency of the subsidiary.

During the year an amendment to IAS 21 – The Effects of Changes in Foreign Exchange Rates has been endorsed by the European Union, whereby currency translation gains and losses arising on inter-company loans that are not in the functional currency of either party can now be dealt with through reserves rather than, as previously, in the income statement.

This policy has been applied retrospectively and has resulted in a restatement of the comparatives in the financial summary, consolidated income statement, consolidated balance sheet, consolidated statement of recognised income and expense and in note 9 on finance costs, translation reserves in note 27 and retained losses in note 28. See note 2(r) below for detailed analysis.

2 Principal accounting policies (continued)

(d) Foreign currencies (continued)

The principal exchange rates (to the US dollar) used in preparing these accounts are as follows:

		2006	2005
Average	Sterling	**0.54**	0.55
	Euro	**0.79**	0.81
Year end	Sterling	**0.51**	0.58
	Euro	**0.76**	0.85

(e) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairments.

(ii) Leased assets

Finance leases, which transfer to the Group substantially all the risks and benefits of ownership of the leased items, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

(iii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

(iv) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

Land and buildings:	
Freehold and long leasehold land	nil
Freehold and long leasehold buildings	2%
Short leasehold property	over period of lease

Fixtures and equipment:	
Motor vehicles	20%
Electronic office equipment	25%
All other plant and machinery	5 to 25%

Assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

(f) Intangible assets

(i) Goodwill

Goodwill is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed. On disposal of a subsidiary, associate or joint venture, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(ii) Brands

Brands with indefinite useful lives are carried at cost less impairment.

(iii) Other intangibles

Acquired computer software licences and computer software development costs are capitalised on the basis of the costs incurred to acquire and bring to use the specific software and are amortised over their estimated useful lives of up to 5 years.

(iv) Research and development

All research and development costs are expensed as they are incurred.

2 Principal accounting policies (continued)

(g) Impairment of tangible and intangible assets excluding goodwill

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). An impairment loss is recognised as an expense.

The reversal of an impairment loss is recognised immediately as income.

(h) Investments

Investments are recognised and derecognised on a trade date basis and are initially measured at fair value plus directly attributable transaction costs. Investments are classified as either short term or long term available-for-sale investments, and are measured at subsequent reporting dates at fair value. Gains and losses arising from changes in fair value are recognised directly in equity, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the income statement for the period. Impairment losses recognised in the income statement for equity investments classified as long-term investments are not subsequently reversed through the income statement.

Listed available-for-sale investments held as current assets are stated at fair value, which is market value.

Unlisted available-for-sale investments held as current assets are stated at fair value.

(i) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials are valued at cost on a first-in, first-out basis.
- Finished goods and work in progress are valued based on the cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Provision is made for obsolete, slow moving and defective inventories.

(j) Employee benefits

(i) Retirement and other post-employment obligations

The retirement and other post-employment benefit obligations recognised in the balance sheet in respect of defined benefit plans is the present value of the defined benefit obligations at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains and losses and past service costs. The defined benefit obligations are calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms of maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged directly to equity. Past service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2 Principal accounting policies (continued)

(j) Employee benefits (continued)

(ii) Share-based compensation

The Group operates cash-settled share-based compensation plans. Cash-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at each reporting date. The fair value is expensed on a straight-line basis over the vesting period, with a corresponding increase in liabilities.

(iii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

(iv) Short term employee benefits

Employee entitlements to salaries, wages and annual leave (included in accruals), to be settled within one year of the reporting date, represent present obligations resulting from employees' services provided up to the reporting date, calculated at undiscounted amounts based on remuneration rates that the Group expects to pay.

(k) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that provision. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Provisions are only made for losses arising as a result of restructuring when the Group is legally or constructively obligated to implement the restructuring.

(l) Taxation

The tax expense represents the sum of current and deferred tax.

Tax is recognised in the income statement except where it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in others years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxation is measured on a non-discounted basis. The following temporary differences are not provided for: goodwill not deducted for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(m) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when a sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year form the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

2 Principal accounting policies (continued)

(n) Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

(i) Trade receivables

Trade receivables are recognised and carried at fair value, being the original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(ii) Trade payables

Trade payables that are not interest bearing are stated at fair value, the amount of the consideration payable. Trade payables with deferred payment terms that effectively constitute a financing transaction are stated at the fair value of the consideration payable. The difference between the fair value and the amount of the consideration payable is recognised as a finance cost in the income statement.

(iii) Financial liabilities and equity instruments

Financial items and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Preference shares have been classified as financial liabilities.

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Convertible loans are regarded as compound financial instruments, consisting of a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible loans. The difference between the proceeds of the issue of the convertible loans and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in equity.

The interest expense on the liability component is calculated by applying the prevailing market rate at the date of issue for a similar non-convertible loan to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible loan.

During the year the Group reviewed the accounting treatment of amounts owed to the parent undertaking, which are subordinated, convertible at the option of the lender and are non interest bearing. This instrument had previously been accounted for as a financial liability, and carried at an amount equal to the proceeds received. It has been concluded that the instrument should be accounted for as a compound financial instrument in accordance with IAS 32 – Financial Instruments: Presentation and Disclosure and IAS 39 – Financial Instruments: Measurement and Recognition.

The fair value of the liability component has been determined as at the date of issue of the amounts owed to parent undertaking in March 2004, and the equity conversion component represents the balance of the proceeds received. The fair value of the liability component as at the date of issue, included in non-current liabilities, was calculated using a discounted cash flow analysis of future cash flows, applying an effective interest rate of 12% which the Group considers is a comparable rate based on prevailing market rates for similar non-convertible instruments at the date of issue. The liability component is accounted for on an amortised cost basis.

This has resulted in a restatement of the comparatives in the financial summary, consolidated income statement, consolidated balance sheet, consolidated statement of recognised income and expense, note 5 on exceptional items, note 9 on finance costs, note 23 amounts owed to parent undertaking (subordinated and convertible), equity reserve in note 26, retained losses in note 28, and the reconciliation of closing equity in note 29. See note 2(r) below for detailed analysis.

(iv) Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement.

2 Principal accounting policies (continued)

(n) Financial instruments (continued)

(v) Derivative financial instruments and hedge accounting

The Group's activities expose it to the financial risks of changes in foreign currency exchange rates and interest rates. The Group uses foreign exchange forward contracts and interest rate swap contracts to hedge these exposures. The Group does not use derivative financial instruments for speculative purposes.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and any ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

For an effective hedge of an exposure to changes in fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in profit or loss. Gains or losses from re-measuring the derivative, or for non-derivatives the foreign currency component of its carrying amount, are recognised in profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

(o) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

For the purposes of the consolidated cash flow statement, net cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(p) Revenue recognition

Revenue comprises the fair value of the sale of goods, net of VAT, discounts and after eliminating sales within the Group. Sales of goods are recognised in revenue when the associated risks and rewards of ownership of the goods have been transferred to the buyer.

Income from sales of property is recognised on completion when legal title of the property passes to the buyer.

Income from available-for-sale investments is recognised when the legal entitlement vests.

(q) Operating profit

Operating profit is stated after charging restructuring costs and crediting property profits but before the share of results of associates and joint ventures and before investment income and finance costs.

2 Principal accounting policies (continued)

(r) Restatement of prior year comparatives

The impact of the restatements in respect of accounting for foreign exchange and accounting for amounts owed to the parent company which are subordinated, convertible and non interest bearing as set out in notes 2(d)(ii) and note 2(n)(iii) are as follows:

	2005 $m
Finance costs as previously reported	(30.3)
IAS 21 adjustment for 2005	5.9
Notional interest on amounts owed to parent undertaking (subordinated and convertible) for the year ended 31 December 2005	(16.5)
Finance costs as restated	(40.9)
Amounts owed to parent undertaking (subordinated and convertible) at 31 December 2005 as previously reported	(280.7)
Adjustments at 1 January 2005:	
– Equity component of amount owed to parent undertaking (subordinated and convertible)	154.0
– Notional interest for the period ended 1 January 2005	(11.4)
Notional interest for the year ended 31 December 2005	(16.5)
Liability component owed to parent undertaking (subordinated and convertible) at 31 December 2005 as restated	(154.6)
Equity reserve at 31 December 2005 as previously reported	–
Equity component of amount owed to parent undertaking (subordinated and convertible)	154.0
Equity reserve as at 31 December 2005 as restated	154.0
Hedging and translation reserve at 31 December 2005 as previously reported	3.0
IAS 21 adjustment at 31 December 2004	1.6
IAS 21 adjustment for 2005	(5.9)
Translation reserve as at 31 December 2005 as restated	(1.3)
Retained loss at 31 December 2005 as previously reported	(23.7)
IAS 21 adjustment at 31 December 2004	(1.6)
IAS 21 adjustment for 2005	5.9
Notional interest on amounts owed to parent undertaking (subordinated and convertible) for the period to 1 January 2005	(11.4)
Notional interest on amounts owed to parent undertaking (subordinated and convertible) for the year ended 31 December 2005	(16.5)
Retained loss as at 31 December 2005 as restated	(47.3)
Total equity as previously reported at 1 January 2005	53.4
Equity component of amount owed to parent undertaking (subordinated and convertible)	154.0
Notional interest on amounts owed to parent undertaking (subordinated and convertible) for the period to 1 January 2005	(11.4)
Total equity at 1 January 2005 as restated	196.0

3 Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, which are described in note 2, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

(i) Goodwill

In testing for impairment, certain assumptions, both concerning the future development of the business and which are consistent with its annual budget and strategic plan, have been made. Should these assumptions not be met, then it is possible that goodwill included in the balance sheet could become impaired.

(ii) Pension and other post-employment obligations

The retirement benefit obligations recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligations at the balance sheet date less the fair value of any plan assets. Key assumptions involved in the determination of the present value of the defined benefit obligations include discount rates and pensions in payment inflation rates. Changes in any of these assumptions could materially change the retirement benefit obligations recognised in the balance sheet.

4 Revenue and other operating income

An analysis of the Group's revenue, as defined by IFRS, is as follows:

	Year ended 31 December 2006 $m	Year ended 31 December 2005 $m
Sales of goods:		
Continuing operations	**1,615.1**	1,636.7
Discontinued operations	**–**	17.0
Other income	**4.6**	1.7
Investment income (note 8)	**4.4**	7.0
	1,624.1	1,662.4
Other operating income as reported in the consolidated income statement includes:		
Other income (as above)	**4.6**	1.7
Profit on the sale of property	**21.3**	17.2
	25.9	18.9

5 Exceptional items

Exceptional items are material items of income or expense that are disclosed separately due to their nature or amount. They are disclosed and described separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group.

Exceptional items charged/(credited) to the consolidated income statement relating to continuing operations are as follows:

	Year ended 31 December 2006 $m	Year ended 31 December 2005 Restated* $m
Cost of sales:		
Reorganisation costs and impairment of property, plant and equipment	**51.6**	62.4
Foreign exchange losses/(gains)	**12.2**	(18.5)
	63.8	43.9
Other operating income:		
Profit on the sale of property	**(21.3)**	(17.2)
Finance costs:		
Notional interest cost on amounts owed to parent undertaking (subordinated and convertible) – see note 23	**18.6**	16.5*
Foreign exchange gains	**–**	(11.8)*
	18.6	4.7
Taxation	**(2.4)**	(7.1)
	58.7	24.3

*Restated, see note 2(r).

6 Operating profit

In addition to the exceptional items above, operating profit has been arrived at after charging/(crediting):

	Year ended 31 December 2006 $m	Year ended 31 December 2005 $m
Depreciation of property, plant and equipment	**55.8**	50.4
Amortisation of computer software included in administrative expenses	**6.8**	5.2
Amortisation of computer software included in cost of sales	**0.5**	0.4
Impairment of brands	**0.5**	–
Negative goodwill arising on acquisitions	**(0.6)**	–
Research and development expenditure	**1.0**	1.3
Cost of inventories recognised as an expense	**616.7**	587.9
Auditors' remuneration (see note)	**3.5**	3.7

Note

Total auditors' remuneration on a worldwide basis is as follows:		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**0.4**	0.3
Fees payable to the Company's auditor and its associates for other services:		
The audit of the Company's subsidiaries, pursuant to legislation	**2.3**	2.6
Services relating to taxation:		
– Advisory	**0.2**	0.3
– Compliance	**0.4**	0.3
All other services	**0.2**	0.2
	3.5	3.7

7 Staff costs

The average monthly number of employees was:

	Year ended 31 December 2006 Number	Year ended 31 December 2005 Number
Continuing operations:		
Direct	**14,864**	15,297
Indirect	**2,972**	3,383
Staff	**6,383**	7,297
	24,219	25,977
Discontinued operations	**–**	222
	24,219	26,199
Comprising:		
Continuing operations:		
UK	**372**	482
Overseas	**23,847**	25,495
	24,219	25,977
Discontinued operations	**–**	222
	24,219	26,199

The total numbers employed at the end of the year were:		
Continuing operations:		
UK	**351**	412
Overseas	**23,430**	24,301
	23,781	24,713
Discontinued operations	**–**	134
	23,781	24,847

7 Staff costs (continued)

	Year ended 31 December 2006 $m	Year ended 31 December 2005 $m
Their aggregate remuneration comprised:		
Continuing operations:		
Wages and salaries	**313.9**	344.4
Social security costs	**50.3**	52.1
Other pension costs: included in operating profit (note 33)	**19.5**	19.9
	383.7	416.4
Discontinued operations:		
Wages and salaries	**–**	2.2
Social security costs	**–**	0.1
Other pension costs (note 33)	**–**	0.1
	–	2.4
Total remuneration	**383.7**	418.8

8 Investment income

	Year ended 31 December 2006 $m	Year ended 31 December 2005 $m
Interest receivable and similar income	**2.7**	4.3
Income from other investments	**1.7**	2.7
	4.4	7.0

9 Finance costs

	Year ended 31 December 2006 $m	Year ended 31 December 2005 Restated* $m
Non-exceptional items		
Amounts payable to parent undertakings	**–**	0.2
Interest on bank loans and overdrafts	**38.2**	39.7
Interest on other borrowings	**1.5**	1.5
Net return on pension scheme assets and liabilities (note 33)	**(15.7)**	(8.3)
Unwinding of discounts on provisions	**0.6**	0.8
Interest on obligations under finance leases	**0.2**	0.1
Other	**4.5**	2.2
	29.3	36.2
Exceptional items		
Notional interest cost on amounts owed to parent undertaking (subordinated and convertible) – see note 23	**18.6**	16.5*
Foreign exchange gains	**–**	(11.8)*
	18.6	4.7
Total finance costs	**47.9**	40.9

*Restated, see note 2(r).

10 Taxation

	$m	Year ended 31 December 2006 $m	$m	Year ended 31 December 2005 $m
UK taxation based on profit for the year:				
Corporation tax at 30%		**23.0**		30.3
Double taxation relief		**(23.0)**		(30.3)
Total UK taxation		**–**		–
Overseas taxation:				
Current taxation		**39.2**		32.6
Deferred taxation (note 24)		**(5.4)**		(7.9)
		33.8		24.7
Prior year adjustments:				
Current taxation	**(5.9)**		11.6	
Deferred taxation (note 24)	**(1.6)**		3.2	
		(7.5)		14.8
		26.3		39.5

Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

The total tax charge for the year can be reconciled to the profit per the income statement as follows:

	Year ended 31 December 2006 $m	Year ended 31 December 2005 $m
Profit before taxation	**38.5**	67.5
Tax at the UK corporation tax rate of 30%	**11.6**	20.3
Adjusted for the effects of:		
Adjustments in respect of prior years	**(7.5)**	14.8
Deferred taxation not provided	**12.2**	14.5
Expenses not deductible for tax purposes	**16.8**	11.1
Withholding tax on remittances	**8.4**	4.2
Intra-Group dividends not covered by double tax relief	**10.6**	1.5
Utilisation of brought forward losses not previously recognised	**(6.7)**	(4.3)
Lower rates of tax on overseas earnings	**(10.9)**	(8.0)
Income not liable to taxation	**(12.0)**	(17.0)
Other	**3.8**	2.4
	26.3	39.5

In 2005, the prior year tax charge of $14.8 million, recognised in the tax charge for continuing operations, was largely offset by a $12.5 million prior year tax credit recognised in the profit from discontinued operations (see note 11).

11 Discontinued operations and non-current assets classified as held for sale

The discontinued operations of Coats Viyella Woollen Yarn Company were sold in May 2006.

The results of discontinued operations are as follows:

	Year ended 31 December 2006 $m	Year ended 31 December 2005 $m
Revenue	–	17.0
Expenses	**(1.9)**	(17.5)
Net loss attributable to discontinued operations	**(1.9)**	(0.5)
Profit on disposal of properties from discontinued operations	**2.4**	0.8
Profit on disposal of discontinued operations (note 30)	**2.7**	2.2
Write-back of tax provision in respect of operations previously disposed of	–	12.5
Net profit attributable to discontinued operations	**3.2**	15.0

During the year discontinued businesses contributed $nil (2005 – $1.2 million) to the Group’s net operating cash flow.

The major classes of assets and liabilities classified as held for sale are as follows:

	2006 $m	2005 $m
Property, plant and equipment	**4.8**	23.7
Inventories	–	0.8
Trade and other receivables	–	4.8
Cash and cash equivalents	–	0.9
Total non-current assets classified as held for sale	**4.8**	30.2

As at 31 December 2006, non-current assets classified as held for sale comprised surplus properties.

12 Intangible assets

	Goodwill $m	Brands $m	Computer software $m	Total $m
Cost				
At 1 January 2005	234.4	0.1	39.6	274.1
Exchange difference	0.2	–	(1.7)	(1.5)
On acquisition of subsidiaries	–	1.8	–	1.8
Additions	–	–	9.6	9.6
Reclassification	–	–	2.0	2.0
Disposals	–	–	(2.2)	(2.2)
At 31 December 2005	234.6	1.9	47.3	283.8
At 1 January 2006	**234.6**	**1.9**	**47.3**	**283.8**
Exchange difference	**–**	**0.1**	**2.6**	**2.7**
On acquisition of subsidiaries (note 30)	**0.6**	**2.8**	**–**	**3.4**
Additions	**–**	**–**	**6.3**	**6.3**
Reclassification	**–**	**–**	**1.0**	**1.0**
Disposals	**–**	**–**	**(1.1)**	**(1.1)**
At 31 December 2006	**235.2**	**4.8**	**56.1**	**296.1**
Amortisation and impairment				
At 1 January 2005	–	–	22.2	22.2
Exchange difference	–	–	(1.2)	(1.2)
Charge for the year	–	–	5.6	5.6
Reclassification	–	–	1.3	1.3
Disposals	–	–	(1.6)	(1.6)
At 31 December 2005	–	–	26.3	26.3
At 1 January 2006	**–**	**–**	**26.3**	**26.3**
Exchange difference	**–**	**–**	**1.7**	**1.7**
Charge for the year	**–**	**–**	**7.3**	**7.3**
Impairment	**–**	**0.5**	**–**	**0.5**
Disposals	**–**	**–**	**(0.6)**	**(0.6)**
At 31 December 2006	**–**	**0.5**	**34.7**	**35.2**
Net book value				
At 31 December 2006	**235.2**	**4.3**	**21.4**	**260.9**
At 31 December 2005	234.6	1.9	21.0	257.5

The carrying amount of the Group's computer software includes an amount of $2.4 million (2005 – $3.4 million) in respect of assets held under finance leases.

The Directors consider that the brands and goodwill will generate benefits for the Group for an indefinite period. Consequently, the Group's brands and goodwill are considered to have indefinite lives and have not been amortised.

13 Property, plant and equipment

	Land and buildings $m	Fixtures and equipment $m	Total $m
Cost			
At 1 January 2005	232.2	929.7	1,161.9
Exchange difference	(11.3)	(25.5)	(36.8)
On acquisition of subsidiaries	–	0.6	0.6
Additions	6.8	68.5	75.3
Reclassifications to non-current assets held-for-sale	(7.8)	–	(7.8)
Other reclassifications	5.1	(10.6)	(5.5)
Disposals	(0.5)	(57.2)	(57.7)
At 31 December 2005	224.5	905.5	1,130.0
At 1 January 2006	**224.5**	**905.5**	**1,130.0**
Exchange difference	**10.8**	**39.4**	**50.2**
On acquisition of subsidiaries (note 30)	**–**	**0.9**	**0.9**
Additions	**10.3**	**65.2**	**75.5**
Reclassifications to non-current assets held-for-sale	**(6.2)**	**–**	**(6.2)**
Other reclassifications	**4.2**	**(5.2)**	**(1.0)**
Disposals	**–**	**(89.5)**	**(89.5)**
At 31 December 2006	**243.6**	**916.3**	**1,159.9**
Accumulated depreciation and impairment			
At 1 January 2005	86.1	598.4	684.5
Exchange difference	(4.4)	(22.5)	(26.9)
Charge for the year	5.1	45.3	50.4
Reclassifications to non-current assets held-for-sale	(4.2)	–	(4.2)
Other reclassifications	1.5	(6.3)	(4.8)
Disposals	(0.3)	(51.2)	(51.5)
At 31 December 2005	83.8	563.7	647.5
At 1 January 2006	**83.8**	**563.7**	**647.5**
Exchange difference	**4.1**	**29.1**	**33.2**
Charge for the year	**5.9**	**49.9**	**55.8**
Impairment	**–**	**(3.4)**	**(3.4)**
Reclassifications to non-current assets held-for-sale	**(0.1)**	**–**	**(0.1)**
Other reclassifications	**0.2**	**(0.2)**	**–**
Disposals	**–**	**(83.9)**	**(83.9)**
At 31 December 2006	**93.9**	**555.2**	**649.1**
Net book value			
At 31 December 2006	**149.7**	**361.1**	**510.8**
At 31 December 2005	140.7	341.8	482.5

The carrying amount of the Group's fixtures and equipment includes an amount of $0.5 million (2005 – $0.4 million) in respect of assets held under finance leases.

As at 31 December 2006, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to $11.7 million (2005 – $6.0 million).

During the year fixtures and equipment that had been impaired in a prior year were brought back into use resulting in an impairment reversal of $4.0 million.

14 Subsidiaries

Principal subsidiary undertakings, including name, country of incorporation and proportion of ownership interest, are given in note K to the Company's accounts.

15 Investments in joint ventures and associates

	Joint ventures $m	Associates $m	Total $m
Cost			
At 1 January 2005	13.6	0.2	13.8
Exchange difference	(0.2)	–	(0.2)
At 31 December 2005	13.4	0.2	13.6
At 1 January and 31 December 2006	**13.4**	**0.2**	**13.6**
Share of profits/(losses) retained			
At 1 January 2005	4.2	(0.2)	4.0
Share of profits for the year	1.6	–	1.6
Dividends paid	(2.8)	–	(2.8)
At 31 December 2005	3.0	(0.2)	2.8
At 1 January 2006	**3.0**	**(0.2)**	**2.8**
Share of profits for the year	**2.1**	**–**	**2.1**
Dividends paid	**(2.3)**	**–**	**(2.3)**
At 31 December 2006	**2.8**	**(0.2)**	**2.6**
Net book value			
At 31 December 2006	**16.2**	**–**	**16.2**
At 31 December 2005	16.4	–	16.4

The aggregated amounts (representing 100% of the entity's balances) relating to joint ventures and associates are:

	2006 $m	2005 $m
Aggregated amounts relating to joint ventures		
Total assets	**35.7**	37.9
Total liabilities	**(3.3)**	(5.0)
Revenues	**42.1**	38.0
Profit after taxation	**4.2**	3.3
Aggregated amounts relating to associates		
Total assets	**37.1**	34.4
Total liabilities	**(37.1)**	(34.4)
Revenues	**27.7**	23.8

Principal joint ventures and associates, including name, country of incorporation and proportion of ownership interest, are given in note K to the Company's accounts.

16 Inventories

	2006 $m	2005 $m
Raw materials	**73.1**	66.0
Work-in-progress	**82.5**	75.0
Finished goods	**152.0**	145.9
	307.6	286.9

17 Trade and other receivables

	2006 $m	2005 $m
Non-current assets		
Taxation recoverable	**9.3**	4.5
Derivative financial instruments	**2.9**	3.5
Other receivables	**15.4**	15.4
	27.6	23.4
Current assets		
Trade receivables	**247.2**	246.6
Due from joint ventures and associates	**0.4**	0.7
Taxation recoverable	**4.9**	10.6
Prepayments and accrued income	**18.5**	12.5
Derivative financial instruments	**5.3**	3.4
Pension surpluses	**3.4**	–
Other receivables	**28.8**	28.9
	308.5	302.7

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

Trade receivables are net of the following bad debt provisions:

Bad debt provisions	**22.5**	24.1

Credit risk

The Group's principal financial assets are trade and other receivables, bank balances and investments.

The Group's credit risk is primarily attributable to its trade receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-ratings agencies.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

18 Financial assets

Trade and other receivables are set out in note 17. Other financial assets are set out below.

Analysis of other financial assets by currency

At 31 December 2006	US dollars $m	Sterling $m	Other $m	Total $m
Available-for-sale investments	**0.1**	**–**	**5.0**	**5.1**
Cash and cash equivalents	**23.7**	**0.2**	**52.5**	**76.4**
	23.8	**0.2**	**57.5**	**81.5**

At 31 December 2005	US dollars $m	Sterling $m	Other $m	Total $m
Available-for-sale investments	0.1	2.9	9.3	12.3
Cash and cash equivalents	31.1	2.1	44.6	77.8
	31.2	5.0	53.9	90.1

Interest rate profile of other financial assets

At 31 December 2006	Floating rate $m	Non-interest bearing $m	Total $m
Available-for-sale investments	**1.8**	**3.3**	**5.1**
Cash and cash equivalents	**72.1**	**4.3**	**76.4**
	73.9	**7.6**	**81.5**

At 31 December 2005	Floating rate $m	Non-interest bearing $m	Total $m
Available-for-sale investments	8.2	4.1	12.3
Cash and cash equivalents	73.5	4.3	77.8
	81.7	8.4	90.1

Floating interest rate cash and cash equivalents include deposits of $26.3 million (2005 – $15.3 million) that have been placed on deposit with banks for periods not exceeding three months (2005 – six months) and earn available market rates. The remainder of the floating rate cash balances are held on current account.

The Directors consider that the carrying amount of available-for-sale investments and cash and cash equivalents approximates to their fair value.

19 Trade and other payables

	2006 $m	2005 $m
Current liabilities		
Trade creditors	**203.2**	199.1
Due to joint ventures and associates	**4.8**	4.6
Other taxes and social security payable	**11.0**	14.6
Accruals and deferred income	**53.2**	52.9
Derivative financial instruments	**0.7**	0.6
Other creditors	**55.4**	41.7
	328.3	313.5
Non-current liabilities		
Tax liabilities	**17.4**	27.0
Other creditors	**8.5**	1.0
	25.9	28.0

The Directors consider that the carrying amount of trade and other creditors approximates to their fair value.

Included in other creditors is a financial liability of $16.2 million (2005 – $21.9 million in provisions) at an interest rate of 3.6% payable in instalments by 2008.

20 Bank overdrafts and other borrowings

	2006 $m	2005 $m
Bank overdrafts	**26.3**	20.7
Loans	**393.1**	416.6
Obligations under finance leases	**2.7**	3.8
	422.1	441.1

The Directors consider that the carrying amount of the Group's borrowings (before the effect of interest rate swaps) approximates to their fair value.

Bank overdrafts are repayable on demand. The bank overdrafts and other borrowings are repayable as follows:

	2006	2005
On demand or within one year	**127.9**	122.0
In the second year	**5.6**	55.4
In the third to fifth years inclusive	**262.8**	192.8
After five years	**25.8**	70.9
	422.1	441.1
Less: Amount due for settlement within one year (shown under current liabilities)	**(127.9)**	(122.0)
Amount due for settlement after more than one year	**294.2**	319.1

The obligations under finance leases are payable as follows:

	2006		2005	
	Minimum lease payments $m	Present value of minimum lease payments $m	Minimum lease payments $m	Present value of minimum lease payments $m
Amounts payable under finance leases:				
Within one year	**1.4**	**1.4**	0.1	0.1
In the second to fifth years inclusive	**1.3**	**1.3**	3.7	3.7
	2.7	**2.7**	3.8	3.8
Less: Amount due for settlement within one year (shown under current liabilities)		**(1.4)**		(0.1)
Amount due for settlement after more than one year		**1.3**		3.7

Analysis of borrowings by currency

At 31 December 2006	US dollars $m	Sterling $m	Other $m	Total $m
Bank overdrafts	**7.7**	**0.4**	**18.2**	**26.3**
Loans	**326.5**	**25.8**	**40.8**	**393.1**
Obligations under finance leases	**0.3**	**2.3**	**0.1**	**2.7**
	334.5	**28.5**	**59.1**	**422.1**

At 31 December 2005	US dollars $m	Sterling $m	Other $m	Total $m
Bank overdrafts	5.3	–	15.4	20.7
Loans	369.7	25.6	21.3	416.6
Obligations under finance leases	0.1	3.6	0.1	3.8
	375.1	29.2	36.8	441.1

20 Bank overdrafts and other borrowings (continued)

Interest rate exposure

The exposure of the borrowings of the Group to interest rate changes and the periods in which the interest rates on the borrowings reprice or mature, whichever is earlier, are as follows:

At 31 December 2006	In one year or less $m	In two to five years $m	In more than five years $m	Total $m
Bank overdrafts	**26.3**	**–**	**–**	**26.3**
Loans	**367.3**	**–**	**25.8**	**393.1**
Obligations under finance leases	**1.4**	**1.3**	**–**	**2.7**
Total borrowings	**395.0**	**1.3**	**25.8**	**422.1**
Effect of interest rate swaps (note 21)	**(205.0)**	**175.0**	**30.0**	**–**
	190.0	**176.3**	**55.8**	**422.1**

At 31 December 2005	In one year or less $m	In two to five years $m	In more than five years $m	Total $m
Bank overdrafts	20.7	–	–	20.7
Loans	393.9	–	22.7	416.6
Obligations under finance leases	0.1	3.7	–	3.8
Total borrowings	414.7	3.7	22.7	441.1
Effect of interest rate swaps (note 21)	(250.0)	220.0	30.0	–
	164.7	223.7	52.7	441.1

The effective interest rates (including the effect of interest rate swaps) at the balance sheet date were as follows:

	2006 %	2005 %
Bank overdrafts	**8.0**	8.0
Loans	**7.0**	6.5
Obligations under finance leases	**6.0**	6.0

Loans of $367.3 million (2005 – $393.9 million) have been arranged at floating interest rates. However, the associated cash flow interest rate risk has been mitigated by floating rate to fixed rate swaps with a notional principal of $250.0 million (2005 – $275.0 million) as set out in note 21.

Loans of $25.8 million (2005 – $22.7 million) are at fixed interest rates and expose the Group to fair value interest rate risk. These loans represent preference shares which are classified as debt.

21 Treasury policy and derivative financial instruments

Credit facilities

The Group is financed primarily through a secured banking facility. As at 31 December 2006, this facility totalled $535.7 million (2005 – $619.2 million), of which $44.0 million (2005 – $44.5 million) expires within one year, $50.6 million (2005 – $58.7 million) expires between one and two years, $441.1 million (2005 – $467.8 million) expires between two and five years and $nil (2005 – $48.2 million) expires after five years.

As at 31 December 2006, bank overdrafts and loans of $11.3 million (2005 – $7.9 million) are secured on trade receivables. $263.1 million (2005 – $339.3 million) of bank overdrafts and loans as at 31 December 2006 are secured on assets of the Group. Security comprises both fixed and floating charges.

21 Treasury policy and derivative financial instruments (continued)

Currency exposures

Group companies use forward foreign exchange contracts to manage currency exposures arising on transactions and balances which are not in the functional currency of the company.

At 31 December 2006, the fair value of the Group's currency derivatives was as follows:

	Assets $m	Liabilities $m
Forward foreign exchange contracts – not designated as hedges	**2.2**	**0.7**

At 31 December 2005, the fair value of the Group's currency derivatives was as follows:

	Assets $m	Liabilities $m
Forward foreign exchange contracts – fair value hedges	0.1	0.4
Forward foreign exchange contracts – not designated as hedges	0.4	0.2
	0.5	0.6

The table below shows the extent to which Group companies have monetary assets and liabilities in currencies other than their functional currency. Foreign exchange differences on retranslation of these assets and liabilities are taken to the Group's income statement. The table excludes loans between Group companies that form part of the net investment in overseas subsidiaries, on which the exchange differences are dealt with through reserves, but includes other Group balances.

Net foreign currency of monetary assets/(liabilities)

At 31 December 2006	US dollars $m	Sterling $m	Other $m	Total $m
Functional currency				
US dollars	**–**	**8.9**	**(82.4)**	**(73.5)**
Sterling	**0.5**	**–**	**(0.8)**	**(0.3)**
Other	**2.9**	**0.4**	**11.9**	**15.2**
	3.4	**9.3**	**(71.3)**	**(58.6)**

At 31 December 2005	US dollars $m	Sterling $m	Other $m	Total $m
Functional currency				
US dollars	–	(37.9)	(120.3)	(158.2)
Sterling	0.7	–	1.8	2.5
Other	10.6	(1.2)	2.2	11.6
	11.3	(39.1)	(116.3)	(144.1)

Interest rate swaps

The Group's debt is largely at floating rate. In order to provide protection from interest rate fluctuations, the Group utilises interest rate swaps to convert a proportion of its floating rate exposure to fixed rates.

Contracts with principal values of $250.0 million (2005 – $275.0 million) have fixed interest payments at rates between 2.75% and 4.80% for periods up until 1 May 2013 and have floating rate interest receipts. $45.0 million of these contracts mature within one year (2005 – $25.0 million).

The fair values of interest rate swaps entered into at 31 December 2006 comprise assets of $6.0 million (2005 – $6.4 million). All of these interest rate swaps were designated and effective as cash flow hedges and movements in fair value were taken to equity.

22 Provisions

	2006 $m	2005 $m
Included in current liabilities	**167.1**	150.0
Included in non-current liabilities	**56.6**	62.6
Total provisions	**223.7**	212.6

As set out in the Chairman's statement on pages 2 to 4, provisions have been made in respect of the European Commission investigation. In accordance with paragraph 92 of IAS 37 Provisions, Contingent Liabilities and Contingent Assets, the disclosures usually required by IAS 37 are not given as the Directors consider that their disclosure could seriously prejudice the outcome of that investigation.

23 Amounts owed to parent undertaking (non-current liabilities)

The amounts owed to the parent undertaking are convertible into ordinary shares of the Company at par at any time from March 2004 and the settlement date in March 2011 at the option of Coats Group Limited.

The net proceeds received have been split between a liability element and an equity component, representing the fair value of the embedded option to convert the liability into equity of the Company, as follows:

	2006 $m	2005 Restated* $m
At 1 January	**154.6**	138.1
Notional interest charge for the year	**18.6**	16.5
At 31 December	**173.2**	154.6

	$m
Carrying value of liability component at 1 January 2005:	
Nominal value of amounts owed to parent undertaking (subordinated and convertible)	280.7
Equity component	(154.0)
Liability component at date of issue	126.7
Notional interest charge for the period ended 1 January 2005	11.4
At 1 January 2005	138.1

The interest charged for the year is calculated by applying an effective interest rate of 12% to the liability component.

The Directors estimate the fair value of the liability component of amounts owed to parent undertaking (subordinated and convertible) to be approximately $148.7 million at 31 December 2006 (2005 – $133.9 million). This fair value has been calculated by discounting the future cash flows based on market rates prevailing at the respective year ends.

*Restated, see note 2(r).

24 Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon:

	Accelerated tax depreciation $m	Retirement benefit obligations $m	Tax losses $m	Undistributed reserves $m	Other timing differences $m	Total $m
At 1 January 2005	32.0	6.4	(35.4)	18.5	(9.2)	12.3
(Credit)/charge to income	(7.1)	4.6	4.4	(6.7)	0.1	(4.7)
Credit to equity	–	(0.3)	–	–	–	(0.3)
Acquisition of subsidiary	–	–	–	–	(0.1)	(0.1)
Transfer to current tax	–	–	–	–	0.3	0.3
At 31 December 2005	24.9	10.7	(31.0)	11.8	(8.9)	7.5
At 1 January 2006	**24.9**	**10.7**	**(31.0)**	**11.8**	**(8.9)**	**7.5**
(Credit)/charge to income	**(9.5)**	**(3.6)**	**18.8**	**(1.2)**	**(11.5)**	**(7.0)**
Charge to equity	**–**	**0.6**	**–**	**–**	**–**	**0.6**
Transfer to current tax	**–**	**–**	**–**	**–**	**(0.1)**	**(0.1)**
Exchange differences	**–**	**0.1**	**–**	**–**	**0.1**	**0.2**
At 31 December 2006	**15.4**	**7.8**	**(12.2)**	**10.6**	**(20.4)**	**1.2**

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2006 $m	2005 $m
Deferred tax liabilities – non-current	**10.7**	12.1
Deferred tax assets – non-current	**(9.5)**	(4.6)
	1.2	7.5

At 31 December 2006, the Group has unused income tax losses of $447.2 million (2005 – $436.7 million). A deferred tax asset of $12.2 million (2005 – $31.0 million) has been recognised in respect of $43.2 million (2005 – $83.8 million) of those losses. No deferred tax has been recognised in respect of the remaining $404.0 million (2005 – $352.9 million) of such losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of $27.2 million (2005 – $14.6 million) that will expire over the next 5 years if not utilised in that period. Other losses will be carried forward for in excess of ten years or indefinitely.

At 31 December 2006, the Group also has unrecovered advance corporation tax of $95.5 million (2005 – $93.9 million) available for offset against future UK profits. No deferred tax has been recognised in respect of these due to the uncertainty of recoverability.

At 31 December 2006, the Group also had unused capital tax losses of $400.2 million (2005 – $240.0 million) available for offset against future UK capital gains. No deferred tax has been recognised in respect of the capital losses due to the unpredictability of future UK capital profit streams.

At 31 December 2006, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have been recognised was $10.6 million (2005 – $11.8 million). A liability has been recognised in respect of these differences because the Group plans to distribute these earnings back to the UK in the near future so that it is probable that such differences will reverse in the foreseeable future.

Temporary differences arising in connection with interests in joint ventures and associates are insignificant.

25 Share capital

	Number of shares	2006 $m	Number of shares	2005 $m
Authorised:				
Ordinary shares of £1 each	**75,050,000**	**137.9**	75,050,000	137.9
A Growth shares of £1 each	**70**	**–**	70	–
B Growth shares of £1 each	**30**	**–**	30	–
		137.9		137.9
Allotted and fully paid:				
Ordinary shares of £1 each	**75,050,000**	**137.9**	75,050,000	137.9
A Growth shares of £1 each	**51**	**–**	51	–
B Growth shares of £1 each	**30**	**–**	30	–
		137.9		137.9

The growth shares represent non equity shares. The Growth shares confer on holders the right to one vote on a show of hands and, on a poll, one vote for each Growth share held at a general meeting. On a winding up or repayment of capital, the Growth shares confer the right to a return of the capital paid up, but do not entitle the holders to any further or other participation in the assets of the Company. The holders of the Growth shares are not entitled to receive any income in respect of their holding. The Growth shares are not redeemable.

During the year ended 31 December 2005, the Company issued 51 A Growth shares of £1 each at par.

26 Equity reserve

The equity reserve wholly relates to the value of the conversion option of the compound financial instrument as detailed in note 23.

	Equity reserve $m
Balance reported at 1 January 2005	–
Recognition of equity component of amounts owed to parent undertaking (subordinated and convertible)*	154.0
Restated balance at 1 January 2005 and 31 December 2005	154.0
Balance at 31 December 2006	**154.0**

*Restated, see note 2(r).

27 Hedging and translation reserve

	Hedging reserve $m	Translation reserve Restated* $m	Total $m
Balance reported at 1 January 2005	2.0	3.8	5.8
Restatement for the effects of IAS 21*	–	1.6	1.6
Restated balance at 1 January 2005	2.0	5.4	7.4
Exchange differences on translation of foreign operations	–	(12.0)	(12.0)
Increase in fair value of cash flow hedges	4.6	–	4.6
Transfer to income	0.8	–	0.8
Other	–	(2.1)	(2.1)
Restated balance at 31 December 2005	7.4	(8.7)	(1.3)
Balance at 1 January 2006	**7.4**	**(8.7)**	**(1.3)**
Exchange differences on translation of foreign operations	**–**	**16.9**	**16.9**
Increase in fair value of cash flow hedges	**2.2**	**–**	**2.2**
Transfer to income	**(2.8)**	**–**	**(2.8)**
Balance at 31 December 2006	**6.8**	**8.2**	**15.0**

*Restated, see note 2(r).

28 Retained loss

	2006 $m	2005 Restated* $m
Balance reported at 1 January	**(47.3)**	(123.0)
Restatement for the effects of IAS 21*	**–**	(1.6)
Restatement in respect of amounts owed to parent undertaking (subordinated and convertible)*	**–**	(11.4)
Restated balance at 1 January	**(47.3)**	(136.0)
Net profit for the year	**11.3**	41.6
Actuarial (losses)/gains in respect of retirement benefit schemes	**(9.4)**	46.8
Tax on items taken directly to equity	**(0.6)**	0.3
Other	**0.4**	–
Balance at 31 December	**(45.6)**	(47.3)

*Restated, see note 2(r).

29 Reconciliation of closing equity

	2006			2005 Restated*		
	Equity holders of the Company $m	Minority interests $m	Total equity $m	Equity holders of the Company $m	Minority interests $m	Total equity $m
Balance reported at 1 January	**243.3**	**26.7**	**270.0**	20.7	32.7	53.4
Restatement in respect of amounts owed to parent undertaking (subordinated and convertible)*	**–**	**–**	**–**	142.6	–	142.6
Balance reported at 1 January as restated	**243.3**	**26.7**	**270.0**	163.3	32.7	196.0
Total recognised income and expense for the year	**18.0**	**3.8**	**21.8**	80.0	1.4	81.4
Dividends paid	**–**	**(4.4)**	**(4.4)**	–	(7.1)	(7.1)
Minority interests acquired	**–**	**(6.6)**	**(6.6)**	–	(0.3)	(0.3)
Balance at 31 December	**261.3**	**19.5**	**280.8**	243.3	26.7	270.0

*Restated, see note 2(r).

30 Notes to the cash flow statement

(a) Reconciliation of operating profit to net cash inflow generated by operations

	Year ended 31 December 2006 $m	Year ended 31 December 2005 $m
Operating profit	**79.9**	99.8
Depreciation of property, plant and equipment	**55.8**	50.4
Amortisation of intangible assets (computer software)	**7.3**	5.6
Reorganisation costs	**55.0**	62.4
Impairment of property, plant and equipment	**(3.4)**	–
Other exceptional items	**(9.1)**	(35.7)
(Increase)/decrease in inventories	**(6.1)**	3.9
Decrease in debtors	**9.8**	34.2
(Decrease)/increase in creditors	**(9.5)**	17.3
Provision movements	**(14.7)**	(11.7)
Other non-cash movements	**7.3**	5.0
Net cash inflow from normal operating activities	**172.3**	231.2
Net cash outflow in respect of reorganisation costs and other exceptional items	**(54.5)**	(54.3)
Net cash inflow generated by operations	**117.8**	176.9

(b) Analysis of net debt

	At 31 December 2005 $m	Cash flow $m	Other non-cash changes $m	Exchange $m	At 31 December 2006 $m
Cash and cash equivalents	77.8				**76.4**
Bank overdrafts	(20.7)				**(26.3)**
Net cash and cash equivalents	57.1	(8.3)	–	1.3	**50.1**
Loans	(416.6)	31.9	(3.9)	(4.5)	**(393.1)**
Finance leases	(3.8)	1.4	(0.3)	–	**(2.7)**
Total	(363.3)	25.0	(4.2)	(3.2)	**(345.7)**

Net debt is before amounts owed to the parent undertaking of $173.2 million (2005 – $154.6 million) as set out in note 23.

30 Notes to the cash flow statement (continued)

(c) Acquisition of subsidiaries

During the year, the Group's main acquisition was the Holger Petersen business (HP), which was acquired and consolidated from 1 October 2006. Total net assets acquired from this and other acquisitions were as follows:

	Book value $m	Alignment of accounting policies $m	Fair value adjustments $m	Fair value $m
Goodwill	–	–	**0.6**	**0.6**
Negative goodwill	–	–	**(0.6)**	**(0.6)**
Brands	–	–	**2.8**	**2.8**
Property, plant and equipment	**0.9**	–	–	**0.9**
Deferred tax assets	**0.1**	**(0.1)**	–	–
Inventories	**5.4**	**(0.5)**	**(0.8)**	**4.1**
Trade and other receivables (current assets)	**0.8**	–	–	**0.8**
Overdraft	**(1.9)**	–	–	**(1.9)**
Trade and other payables (current liabilities)	**(1.6)**	–	–	**(1.6)**
Attributable to minority interests	**5.8**	–	–	**5.8**
Net assets acquired	**9.5**	**(0.6)**	**2.0**	**10.9**

	Fair value $m
Satisfied by:	
Cash paid in the year	**8.8**
Overdraft acquired	**1.9**
Net cash paid	**10.7**
Deferred consideration	**2.1**
Overdraft acquired	**(1.9)**
	10.9

Acquisitions contributed $0.8 million to the Group's net operating cash flows for the year ended 31 December 2006.

The revenue and profit/(loss) for the year as though the acquisition of subsidiaries had been effected at the beginning of the year is as follows:

	Year ended 31 December 2006 $m
Revenue	
Group	**1,615.1**
Acquisitions	**8.0**
	1,623.1
Profit/(loss) for the year	
Group	**15.4**
Acquisitions	**(0.5)**
	14.9

30 Notes to the cash flow statement (continued)

(d) Disposal of subsidiaries

The Group disposed of Coats Viyella Woollen Yarns in May 2006 and received deferred consideration in respect of the disposal of other non-core operations. The net assets of this and other disposals were:

	$m	$m
Property, plant and equipment		**1.3**
Inventories		**0.8**
Trade and other receivables (current assets)		**0.5**
Cash and cash equivalents		**0.8**
Provisions		**(2.8)**
Minority interests		**(0.8)**
Net liabilities sold		**(0.2)**
Continuing operations	**0.7**	
Discontinued operations (note 11)	**2.7**	
Profit on disposal		**3.4**
Consideration		**3.2**
Satisfied by:		
Cash received in the year		**4.9**
Cost of disposal		**(1.7)**
		3.2

During the year discontinued businesses contributed $nil (2005 – $1.2 million) to the Group's net operating cash flow, resulting in a $3.2 million (2005 – $13.0 million) inflow overall in respect of discontinued operations.

31 Contingent liabilities

	2006 $m	2005 $m
Trade facility and bank guarantees	**0.2**	7.2
Other	**0.4**	–
	0.6	7.2

32 Operating lease arrangements

	2006 $m	2005 $m
The Group as lessee		
Minimum lease payments under operating leases recognised in the income statement for the year	**26.0**	25.5

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

Within one year	**25.4**	23.7
In the second to fifth years inclusive	**51.5**	55.3
After five years	**28.0**	27.7
	104.9	106.7

Operating lease payments represent rentals payable by the Group for land and buildings, hire of plant and machinery and contract hire of vehicles.

The Group as lessor

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

Within one year	**5.2**	4.4
In the second to fifth years inclusive	**13.8**	14.2
After five years	**12.3**	12.2
	31.3	30.8

33 Retirement and other post-employment benefit arrangements

(a) Pension and other post-employment costs

Pension and other post-employment costs for the year were:

	$m	Year ended 31 December 2006 $m	$m	Year ended 31 December 2005 $m
Defined contribution schemes		**3.9**		3.8
Defined benefit schemes – UK funded	**4.2**		5.5	
US funded	**3.2**		3.7	
Other funded and unfunded	**8.2**		7.0	
		15.6		16.2
		19.5		20.0

(b) Defined contribution schemes

The Group operates a number of defined contribution plans around the world to provide pension benefits.

33 Retirement and other post-employment benefit arrangements (continued)

(c) Defined benefit schemes

The Group operates a number of defined benefit plans around the world to provide pension and other post-retirement benefits. The principal defined benefit arrangements are those in the UK and in US and the assets of these plans are held under self-administered trust funds and hence are separated from the Group's assets. The schemes hold no employer related assets.

The Group operates defined benefit schemes in other countries, mainly in Europe. In the majority of cases, as is normal local practice, these schemes are unfunded and provisions are carried in the balance sheets of the companies concerned.

Pension costs in respect of these plans are assessed in accordance with the advice of independent, professionally qualified actuaries.

The information provided below for defined benefit plans has been prepared by independent qualified actuaries based on the most recent actuarial valuations of the schemes, updated to take account of the valuations of assets and liabilities as at 31 December 2006. For the principal schemes, the date of the most recent actuarial valuations were 1 April 2006 for the UK scheme and 31 December 2006 for the US scheme.

Principal assumptions at 31 December 2006	UK %	US %	Other %
Rate of increase in salaries	**3.95**	**5.00**	**2.45**
Rate of increase for pensions in payment	**2.95**	**–**	**1.64**
Discount rate	**5.40**	**5.80**	**5.35**
Inflation assumption	**2.95**	**2.50**	**2.37**

Principal assumptions at 31 December 2005	UK %	US %	Other %
Rate of increase in salaries	3.75	5.00	2.52
Rate of increase for pensions in payment	2.75	–	1.63
Discount rate	5.00	5.40	4.69
Inflation assumption	2.75	2.50	2.19

Long term rate of return expected at 31 December 2006	UK %	US %	Other %
Equities	**7.94**	**8.20**	**8.84**
Corporate bonds and gilts	**4.64**	**5.00**	**7.17**
Other	**5.62**	**3.50**	**6.26**

Long term rate of return expected at 31 December 2005	UK %	US %	Other %
Equities	7.84	8.30	8.40
Corporate bonds and gilts	4.34	5.00	7.40
Other	6.49	1.60	1.60

Long term rates of return are net of investment expenses. Long term rates of return have been calculated as the weighted rate of return on each asset class. Rates of return on bonds are weighted by the approximate investment split between government and corporate bonds. The return on each asset class is taken as the market rate of return.

33 Retirement and other post-employment benefit arrangements (continued)

(c) Defined benefit schemes (continued)

Amounts recognised in income in respect of these defined benefit schemes are as follows:

For the year ended 31 December 2006	UK $m	US $m	Other $m	Group $m
Current service cost	**(4.4)**	**(3.2)**	**(6.8)**	**(14.4)**
Settlements and curtailments	**0.2**	**–**	**(0.8)**	**(0.6)**
Past service costs	**–**	**–**	**(0.6)**	**(0.6)**
Included in operating profit	**(4.2)**	**(3.2)**	**(8.2)**	**(15.6)**
Interest on defined benefit obligations – unwinding of discount	**(131.3)**	**(8.3)**	**(7.3)**	**(146.9)**
Expected return on pension scheme assets	**145.8**	**14.0**	**2.8**	**162.6**
Included in finance costs – net return/(charge)	**14.5**	**5.7**	**(4.5)**	**15.7**

For the year ended 31 December 2005	UK $m	US $m	Other $m	Group $m
Current service cost	(5.5)	(3.7)	(5.9)	(15.1)
Settlements and curtailments	–	–	(1.1)	(1.1)
Included in operating profit	(5.5)	(3.7)	(7.0)	(16.2)
Interest on defined benefit obligations – unwinding of discount	(131.1)	(9.1)	(6.7)	(146.9)
Expected return on pension scheme assets	138.5	14.9	1.8	155.2
Included in finance costs – net return/(charge)	7.4	5.8	(4.9)	8.3

The actual return on scheme assets was $139.0 million (2005 – $315.6 million) for the UK, $18.5 million (2005 – $12.6 million) for the US and $6.2 million (2005 – $1.6 million) for other.

The amounts included in the balance sheet arising from the Group's defined benefit arrangements are as follows:

As at 31 December 2006	UK $m	US $m	Other $m	Total $m
Equities	**1,022.1**	**104.4**	**16.7**	**1,143.2**
Corporate bonds and gilts	**1,694.7**	**102.5**	**14.0**	**1,811.2**
Other	**195.1**	**13.4**	**5.7**	**214.2**
Total market value of assets	**2,911.9**	**220.3**	**36.4**	**3,168.6**
Actuarial value of scheme liabilities	**(2,726.1)**	**(159.8)**	**(162.7)**	**(3,048.6)**
Gross net asset/(liability) in the scheme	**185.8**	**60.5**	**(126.3)**	**120.0**
Adjustment due to surplus cap	**(162.9)**	**(23.6)**	**–**	**(186.5)**
Recoverable net asset/(liability) in the scheme	**22.9**	**36.9**	**(126.3)**	**(66.5)**

This amount is presented in the balance sheet as follows:

Non-current assets	**61.3**
Current assets	**3.4**
Current liabilities	**(17.8)**
Non-current liabilities	**(113.4)**
	(66.5)

33 Retirement and other post-employment benefit arrangements (continued)

(c) Defined benefit schemes (continued)

As at 31 December 2005	UK $m	US $m	Other $m	Total $m
Equities	699.6	121.4	9.1	830.1
Corporate bonds and gilts	1,666.8	94.0	12.5	1,773.3
Other	205.8	10.6	1.1	217.5
Total market value of assets	2,572.2	226.0	22.7	2,820.9
Actuarial value of scheme liabilities	(2,525.2)	(174.9)	(149.7)	(2,849.8)
Gross net asset/(liability) in the scheme	47.0	51.1	(127.0)	(28.9)
Adjustment due to surplus cap	(19.8)	(22.2)	–	(42.0)
Recoverable net asset/(liability) in the scheme	27.2	28.9	(127.0)	(70.9)

This amount is presented in the balance sheet as follows:

Non-current assets	57.5
Current liabilities	(13.0)
Non-current liabilities	(115.4)
	(70.9)

The UK and US schemes are funded arrangements. Of the other schemes' actuarial liabilities as at 31 December 2006, $130.3 million (2005 – $126.0 million) related to wholly unfunded arrangements.

	Year ended 31 December 2006 $m	Year ended 31 December 2005 $m
Movements in the present value of defined benefit obligations were as follows:		
At 1 January	**(2,849.8)**	(3,042.4)
Current service cost	**(14.4)**	(15.1)
Past service cost	**(0.6)**	–
Interest on defined benefit obligations – unwinding of discount	**(146.9)**	(146.9)
Actuarial gains and losses	**111.4**	(114.0)
Contributions from members	**(1.1)**	(1.4)
Benefits paid	**197.3**	183.7
Settlements and curtailments	**3.4**	1.7
Transferred from provisions and creditors	**–**	(14.4)
Acquisition of subsidiary undertaking	**–**	(0.3)
Exchange difference	**(347.9)**	299.3
At 31 December	**(3,048.6)**	(2,849.8)
Movements in the fair value of scheme assets were as follows:		
At 1 January	**2,820.9**	2,945.8
Expected return on scheme assets	**162.6**	155.2
Actuarial gains and losses	**12.7**	173.7
Contributions from members	**1.1**	1.4
Contribution from sponsoring companies	**19.0**	13.4
Benefits paid	**(194.5)**	(179.5)
Settlements and curtailments	**(4.0)**	(2.8)
Exchange difference	**350.8**	(286.3)
At 31 December	**3,168.6**	2,820.9

33 Retirement and other post-employment benefit arrangements (continued)

(c) Defined benefit schemes (continued)

	$m	Year ended 31 December 2006 $m	$m	Year ended 31 December 2005 $m
Actuarial gains and losses were as follows:				
Actuarial gains/(losses) on obligations		**111.4**		(114.0)
Actuarial gains on assets		**12.7**		173.7
Adjustment due to surplus cap	**(144.5)**		(11.2)	
Exchange difference	**11.0**		(1.1)	
		(133.5)		(12.3)
Included in the statement of recognised income and expense		**(9.4)**		47.4
Cumulative amount included in the statement of recognised income and expense		**43.1**		52.5

	+ 1% $m	Year ended 31 December 2006 Valuation trend - 1% $m	+ 1% $m	Year ended 31 December 2005 Valuation trend - 1% $m
Sensitivity of medical schemes to medical cost trend rate assumptions:				
Effect on total service cost and interest cost components of other schemes	**0.1**	**(0.1)**	–	–
Effect on defined benefit obligation of other schemes	**0.5**	**(0.5)**	0.3	(0.3)

History of experience adjustments

For the year ended 31 December 2006 these were:	UK $m	US $m	Other $m
Present value of defined benefit obligations	**(2,726.1)**	**(159.8)**	**(162.7)**
Fair value of scheme assets	**2,911.9**	**220.3**	**36.4**
Net asset/(liability) in respect of the scheme	**185.8**	**60.5**	**(126.3)**
Experience gains and losses on scheme liabilities	**61.9**	**1.1**	**(9.7)**
Percentage of scheme liabilities	**2%**	**1%**	**(6)%**
Difference between the expected and actual return on pension scheme assets	**(6.8)**	**4.5**	**3.4**
Percentage of scheme assets	**–**	**2%**	**9%**

For the year ended 31 December 2005 these were:	UK $m	US $m	Other $m
Present value of defined benefit obligations	(2,525.2)	(174.9)	(149.7)
Fair value of scheme assets	2,572.2	226.0	22.7
Net asset/(liability) in respect of the scheme	47.0	51.1	(127.0)
Experience gains and losses on scheme liabilities	(10.5)	(10.0)	0.1
Percentage of scheme liabilities	–	(6)%	–
Difference between the expected and actual return on pension scheme assets	177.1	(2.3)	(0.2)
Percentage of scheme assets	7%	(1)%	(1)%

33 Retirement and other post-employment benefit arrangements (continued)

History of experience adjustments (continued)

For the year ended 31 December 2004 these were:	UK $m	US $m	Other $m
Present value of defined benefit obligations	(2,708.7)	(182.8)	(150.9)
Fair value of scheme assets	2,682.9	240.0	22.9
Net (liability)/asset in respect of the scheme	(25.8)	57.2	(128.0)
Experience gains and losses on scheme liabilities	(15.7)	2.0	5.9
Percentage of scheme liabilities	(1)%	1%	4%
Difference between the expected and actual return on pension scheme assets	73.2	10.7	0.1
Percentage of scheme assets	3%	4%	–

For the period from 7 April 2003 to 31 December 2003 these were:	UK $m	US $m	Other $m
Present value of defined benefit obligations	(2,464.5)	(175.1)	(140.9)
Fair value of scheme assets	2,429.5	237.2	22.4
Net (liability)/asset in respect of the scheme	(35.0)	62.1	(118.5)
Experience gains and losses on scheme liabilities	6.1	(5.9)	(5.4)
Percentage of scheme liabilities	–	(3)%	(4)%
Difference between the expected and actual return on pension scheme assets	122.0	12.7	2.6
Percentage of scheme assets	5%	5%	12%

The Company acquired Coats Holdings Ltd on 7 April 2003. All pension arrangements relate to Coats Holdings Ltd and its subsidiaries, and therefore were transferred into the Group at 7 April 2003.

The estimated amount of contributions expected to be paid to the schemes during the 2007 financial year is $21.3 million.

34 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and other related parties are disclosed below.

Trading transactions

During the year, Group companies entered into the following transactions with related parties who are not members of the Coats plc Group:

	Parent companies 2006 $m	Parent companies 2005 Restated* $m	Joint ventures 2006 $m	Joint ventures 2005 $m	Associates 2006 $m	Associates 2005 $m
Sales of goods	**–**	–	**21.3**	19.3	**0.4**	1.4
Purchases of goods	**–**	–	**42.0**	38.1	**9.9**	8.2
Other income	**–**	–	**–**	–	**0.7**	0.7
Other expense	**–**	(0.2)	**–**	–	**–**	–
Due by related parties (note 17)	**–**	–	**–**	–	**0.4**	0.7
Due to related parties (note 19 and 23)	**173.2**	154.6	**1.5**	2.2	**3.3**	2.4

Amounts owed to parent undertaking represent the liability component of the compound financial instrument as disclosed in note 23. The nominal value is $280.7 million (2005 – $280.7 million). The other amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

*Restated, see note 2(r).

Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate.

	Year ended 31 December 2006 $m	Year ended 31 December 2005 $m
Short term benefits	**2.1**	1.8
Post-employment benefits	**–**	0.1
Share-based payments	**2.6**	1.5
	4.7	3.4
Emoluments of the highest paid Director – excludes share-based payments	**2.0**	1.7

As at 31 December 2005 and 2006 one Director was a member of a Group pension arrangement. The accrued pension entitlement at 31 December 2006 is $17,150 per annum (2005 – $13,345 per annum).

The Company and the Group accounts include a charge for the year of $5.2 million (2005 – $2.8 million) and a liability as at 31 December 2006 of $8.0 million (2005 – $2.8 million) for cash-settled share-based payments.

35 Immediate and ultimate parent company

Coats Group Limited, a company incorporated in the British Virgin Islands, was the immediate parent company of the Group throughout the years ended 31 December 2005 and 2006.

Guinness Peat Group plc, a company incorporated in England and Wales, was both the controlling party and the ultimate parent company of the Group throughout the years ended 31 December 2005 and 2006.

Guinness Peat Group plc prepares consolidated financial statements, which can be obtained from the Company Secretary at First Floor, Times Place, 45 Pall Mall, London SW1Y 5GP.

Independent auditors' report to the members of Coats plc

We have audited the Parent Company financial statements of Coats plc for the year ended 31 December 2006 which comprise the Company balance sheet and the related notes A to K. These Parent Company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of Coats plc for the year ended 31 December 2006.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual Report and the Parent Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Parent Company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Parent Company financial statements give a true and fair view and whether the Parent Company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the Directors' Report is consistent with the Parent Company financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited Parent Company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Parent Company financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Parent Company financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the Parent Company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Parent Company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Parent Company financial statements.

Opinion

In our opinion:

- the Parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006;
- the Parent Company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Parent Company financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
23 April 2007

Company balance sheet

At 31 December 2006	Notes	2006 $m	2005 $m
Fixed assets			
Investments in subsidiary undertakings	C	**749.1**	749.1
Current assets			
Debtors due within one year	D	**0.1**	0.8
Cash at bank and in hand		**0.1**	33.2
		0.2	34.0
Creditors – amounts falling due within one year			
Other creditors	E	**(19.3)**	(46.1)
Net current liabilities		**(19.1)**	(12.1)
Total assets less current liabilities		**730.0**	737.0
Creditors – amounts falling due after more than one year			
Amounts owed to parent undertaking (subordinated and convertible)	F	**(280.7)**	(280.7)
Other creditors	G	**(404.9)**	(417.7)
		(685.6)	(698.4)
Provisions for liabilities and charges	34	**(8.0)**	(2.8)
Net assets		**36.4**	35.8
Capital and reserves			
Called up share capital	25	**137.9**	137.9
Profit and loss account	H	**(101.5)**	(102.1)
EQUITY SHAREHOLDERS' FUNDS	I	**36.4**	35.8

The financial statements of Coats plc (the Company) on pages 52 to 56 were approved by the Board of Directors and authorised for issue on 23 April 2007.

They were signed on its behalf by:
Blake Nixon, Director
23 April 2007

A Principal accounting policies

(a) Basis of accounting

Although the Group's consolidated financial statements have been prepared under IFRS, the Coats plc Company financial statements presented in this section have been prepared under accounting practice generally accepted in the UK (UK GAAP) and have been prepared on the basis of historical cost and in accordance with applicable United Kingdom law and accounting standards.

The principal accounting policies for the Company are set out below.

(b) Foreign currencies

Since the US dollar and currencies closely linked to it are the main currencies in which the business of the Coats Group and this Company is transacted, the Company's reporting and functional currency is US dollars.

Assets and liabilities in foreign currencies are translated into US dollars at the rates of exchange ruling at the year end or related forward contract rates.

Profits and losses on exchange arising in the normal course of trading and realised exchange differences arising on the conversion or repayment of foreign currency borrowings are dealt with in the profit and loss account.

(c) Investments

Fixed asset investments are stated at cost unless, in the opinion of the Directors, there has been an impairment, in which case an appropriate adjustment is made.

(d) Bank borrowings and other financial instruments

Interest-bearing bank loans are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the profit or loss account.

The Company uses interest rate swaps to manage its exposure to interest rate movements on its floating rate bank borrowings. Under UK GAAP, their book value is $nil (2005 – $nil). Their fair value comprises assets of $6.0 million (2005 – $6.3 million).

(e) Share-based compensation

The Company operates cash-settled share-based compensation plans. Cash-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at each reporting date. The fair value is expensed on a straight-line basis over the service period, with a corresponding increase in liabilities.

(f) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

B Company's profit/(loss)

	Year ended 31 December 2006 $m	Year ended 31 December 2005 $m
The Company's profit/(loss) was	**0.6**	(37.8)

Under the provisions of Section 230 Companies Act 1985 a Profit and Loss Account for the Company is not presented.

The remuneration of the Company's Directors and details of the Company's cash-settled share-based payments are disclosed in note 34 to the consolidated accounts. The auditors' remuneration for audit services to the Company was $0.4 million (2005 – $0.3 million). Audit fees and any employee costs were borne by a subsidiary undertaking in the current and prior years.

C Investments in subsidiary undertakings

	$m
Cost and net book value:	
Balance at 1 January and 31 December 2006	**749.1**

The principal subsidiary undertakings of the Company and the Group are detailed in note K.

D Debtors

	2006 $m	2005 $m
Debtors due within one year:		
Trade debtors	**–**	0.5
Amounts owed by subsidiary undertakings	**0.1**	0.3
	0.1	0.8

E Other creditors (amounts falling due within one year)

	2006 $m	2005 $m
Loans	**–**	40.6
Bank overdrafts	**13.9**	–
Accruals and deferred income	**5.4**	5.5
	19.3	46.1

F Amounts owed to parent undertaking (subordinated and convertible)

The amounts owed to the parent undertaking of $280.7 million (2005 – $280.7 million) are non-interest bearing, repayable in March 2011, subordinated to the Group's principal secured banking facility and convertible into equity at par at the option of Coats Group Limited at any time up to March 2011.

G Other creditors (amounts falling due after more than one year)

	2006 $m	2005 $m
Loans	**251.9**	290.7
Amounts due to subsidiary undertakings	**153.0**	127.0
	404.9	417.7

The loans falling due within one year and after more than one year are secured on the assets of the Company and the Group. The security comprises both fixed and floating charges.

Of the loans falling due after more than one year, $nil (2005 – $48.2 million) falls due after more than five years.

H Profit and loss account

	2006 $m	2005 $m
Balance at 1 January	**(102.1)**	(64.3)
Net profit/(loss) for the year	**0.6**	(37.8)
Balance at 31 December	**(101.5)**	(102.1)

I Reconciliation of closing equity

	2006 $m	2005 $m
Balance at 1 January	**35.8**	73.6
Net profit/(loss) for the year	**0.6**	(37.8)
Balance at 31 December	**36.4**	35.8

J Related party transactions

The Company's immediate and ultimate parent company is set out in note 35 to the consolidated accounts.

As the Company is a wholly owned subsidiary of its ultimate parent company, Guinness Peat Group plc, whose consolidated financial statements are publicly available, in accordance with FRS 8 – Related Party Disclosures, no disclosure is given of transactions between the Company and other entities within the Guinness Peat Group.

K Principal Subsidiary Undertakings

The principal subsidiary undertakings of the Company and the Group are as follows:

		Country of incorporation or registration and principal country of operation
Holding, Finance and Property Companies		
Coats Holdings Ltd		England
Coats International plc	99.998%	England
Coats Finance Co. Limited		England
Coats Property Management Limited		England
Tootal Thread Limited		England
Coats Deutschland GmbH		Germany
Coats China Holdings Limited		Hong Kong
J. & P. Coats Limited		Scotland
Coats Invers SLU		Spain
Coats North America Consolidated Inc.		US
Thread		
Coats Cadena SA		Argentina
Coats Australian Pty Ltd		Australia
Coats Bangladesh Ltd	80%	Bangladesh
Coats Corrente Ltda		Brazil
Coats Canada Inc		Canada
Coats Opti Shenzhen Ltd		China
Coats Shenzhen Ltd		China
Guangzhou Coats Limited	90%	China
Coats Cadena SA		Colombia
Coats (UK) Limited		England
Coats France SAS		France
Coats GmbH		Germany
China Thread Development Company Limited		Hong Kong
Coats Hong Kong Limited	90%	Hong Kong
Coats Hungary Limited		Hungary
Madura Coats Private Limited		India
PT Coats Rejo Indonesia		Indonesia
Coats Cucirini SRL		Italy
Coats Thread (Malaysia) Sdn Bhd	51%	Malaysia
Grupo Coats Timon SA De CV		Mexico
Cia de Linha Coats & Clark Lda		Portugal
SC Coats Romania Impex SRL		Romania
Coats South Africa (Pty) Ltd		South Africa
Coats Fabra SA		Spain
Coats Thread Lanka (Private) Ltd	86.8%	Sri Lanka
Coats (Turkiye) Iplik Sanayii AS	77.2%	Turkey
Coats American Inc.		US
Coats & Clark Inc.		US
Coats Phong Phu Co Ltd	70%	Vietnam

In addition, the following companies are subsidiary undertakings of the Company under UK GAAP, but represent joint ventures for the Group under IFRS.

Thread – Joint Ventures		
Guangying Spinning Company Limited	50%	China
Jinying Spinning Company Limited	50%	China

All the above companies carry on businesses, the results of which, in the opinion of the Directors, principally affect the amount of the profit or the amount of the assets of the Group and the Company. All companies are wholly owned unless otherwise stated; percentage holdings shown represent the ultimate interest of Coats plc.

All companies except Coats Holdings Ltd and Coats International plc are held indirectly.

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